Canadian Grain Commission | Commission canadienne des grains

Quarterly Financial Report

Canadian Grain Commission
Statement Outlining Results, Risks, and Significant Changes in Operations, Personnel, and Programs (Unaudited)

For the period ended December 31, 2016

Canada

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1.0 Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates*. It has been prepared by Canadian Grain Commission (CGC) management as required by section 65.1 of the *Financial Administration Act* and is in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. This quarterly report has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

The CGC was established in 1912 and is the federal government department responsible for administering the provisions of the *Canada Grain Act* (CGA).

The CGC's mandate as set out in the act is to, "in the interests of the grain producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets".

The CGC's vision is "To be a world class, science-based quality assurance provider". The Minister of Agriculture and Agri-Food is responsible for the CGC.

In order to effectively pursue its mandate, the CGC aims to achieve the following strategic outcome: **Canada's grain is safe, reliable and marketable and Canadian grain producers are properly compensated for grain deliveries to licensed grain companies.**

The CGC's Program Alignment Architecture has five programs. The Quality Assurance Program, Quantity Assurance Program, Grain Quality Research Program, and Producer Protection Program each contribute to making progress to the sole strategic outcome. The Internal Services program supports all other programs within the CGC.

Further details on the CGC's authority, mandate, and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting (modified cash) and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying *Statement of Budgetary Authorities* compares the department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates.*

The authority of Parliament is required before moneys can be spent by the Government. Approvals are given in the form of annually approved limits through *Appropriations Acts* or through legislation in the form of statutory spending for specific purposes.

As part of the Parliamentary business of supply, the Main Estimates must be tabled in Parliament on or before March 1 preceding the new fiscal year.

The CGC uses the full accrual method of accounting to prepare and present its annual departmental financial statements included in the *Departmental Performance Reports.* However, the spending authorities voted by Parliament are on an expenditure basis (modified cash) of accounting.

1.3 CGC Financial Structure

The CGC funding structure is based on budgetary authorities that are comprised of both statutory and voted (non-statutory) authorities. The statutory authorities include employee benefit plan authority for appropriation-funded personnel costs and CGC revolving fund authority, which allows the CGC to re-spend fees that it has collected. The voted authority is Vote 1 – Program Expenditures, which includes annual appropriation authority and any one time ad hoc appropriation authority for the fiscal year.

A revolving fund was set up for the CGC in 1995 with the expectation that the CGC would be largely self-funded through fees for service. Prior to August 1, 2013, CGC user fees had not increased since 1991 despite continually increasing operating costs. As a result, overall cost recovery had fallen from approximately 90 percent in the early 1990s to between 50 and 60 percent. The CGC's falling cost recovery level caused the CGC to rely on ad hoc government appropriation from 1999 to 2014 to fund operations on an annual basis.

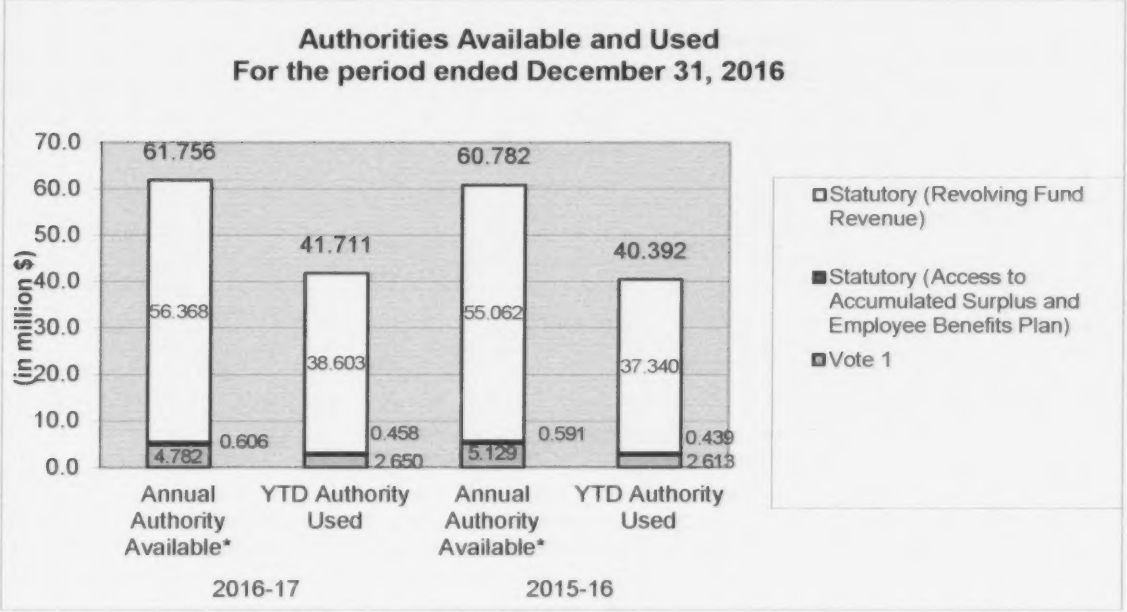
In fall 2012, the CGC initiated a process to modernize user fees to align with amendments to the CGA introduced in Parliament as part of *Bill C-45*. Bill C-45 received Royal Assent on December 14, 2012. Amended legislation and updated user fees came into force concurrently on August 1, 2013. These changes eliminated the need for annual ad hoc funding going forward.

Planned spending for fiscal year 2016-17 is based on operations under an amended CGA and updated user fees. The CGC plans to recover approximately 91 percent of its costs through user fees. User fees will increase based on inflation as published in November 2012 in the CGC's User Fee Consultation and pre-proposal notification. Planned FTEs are 404 during fiscal year 2016-17.

During 2015-16, the CGC commenced a review of the user fees structure as part of the organizations five year user fees review cycle. The review will ensure that user fees accurately reflect the costs of providing services and reflect updated grain volume projections and the uncertainty associated with such projections. User fees consultations are planned during 2016-17. Updated user fees are expected to be in place by April 1, 2018.

2.0 Highlights of Fiscal Year to Date

This section highlights any significant items that affected the year-to-date results and/or contributed to the net change in resources available for the year and actual expenditures. It should be read in conjunction with the *Statement of Budgetary Authorities* and the *Departmental Budgetary Expenditures by Standard Object*, which can be found at the end of this report.



* Authority available based on amounts approved through the Estimates process. Amounts detailed in Statement of Authorities.

2.1 Authority Available Analysis

As reflected in the *Statement of Budgetary Authorities*, the department's total authority available for use (net of Revolving Fund revenue) in the fiscal year as at December 31, 2016 is $5.388 million, as compared to $5.720 million as at December 31, 2015. The decrease of $0.332 million over the same period last year is primarily due to the decrease in the CGC's operating budget carry forward and CGC's contribution to Stats Canada for the Census of the Population.

With the implementation of revised user fees to support its sustainable funding model, the CGC forecasts an increase of $1.306 million in its revolving fund gross revenues authorities due to inflation adjustments for user fees. This increase does not affect the change in the CGC budgetary authorities.

2.2 Authority Used Analysis

As reflected in the *Departmental Budgetary Expenditures by Standard Object*, the department's total budgetary authority used in the quarter ended December 31, 2016 is ($6.372 million), as compared to ($5.374 million) as at the quarter ended December 31, 2015. The decrease of $0.998 million in total budgetary authority used can be attributed to:

1. the overall increase of $1.557 million in revenues received in the quarter ended December 31, 2016 primarily due to higher grain volumes handled as compared to the same quarter last year; and

2. the overall increase of $0.559 million in expenditures is primarily a result of the following significant variances:

    a. Rental expenditures decreased by $0.166 million as compared to the same quarter last year primarily due to the timing of software license purchases;

    b. Repairs and maintenance expenditures increased by $0.300 million as compared to the same quarter last year primarily due to leasehold improvements; and

    c. Other subsidies and payments increased by $0.174 million as compared to the same quarter last year primarily due to inter-government transactions and salary overpayments.

As reflected in both the Statement of Budgetary Authorities and the Departmental Budgetary Expenditures by Standard Object, overall expenditures, with consideration to the above changes, are consistent between fiscal periods.

The total budgetary authority used in the year to December 31, 2016 is ($15.529 million) as compared to ($14.398 million) for the same period last year. The decrease of $1.131 million in budgetary authority used can be attributed to:

1. the overall increase of $2.450 million in revenues collected is primarily due to an increase in accounts receivable as at the end of period 9 as compared to the previous period; and

2. the overall increase of $1.319 million in expenditures is as a result of the following significant variances:

    a. Personnel expenditures increased by $0.576 million as compared to the same period last year primarily due to the increased use of term and casual employees;

b. Transportation and communication expenditures increased by $0.185 million as compared to the same period last year primarily due to travel requirements to deliver operational requirements of CGC mandate;

c. Repairs and maintenance expenditures increased by $0.325 million as compared to the same period last year primarily due to leasehold improvements;

d. Acquisition of machinery decreased by $0.308 million as compared to the same period last year primarily due to WIFI equipment purchased in Quarter 1 of 2015-16; and

e. Other subsidies and payments increased by $0.314 million as compared to the same period last year primarily due to inter-government transactions and salary overpayments.

As reflected in both the Statement of Budgetary Authorities and the Departmental Budgetary Expenditures by Standard Object, overall expenditures, with consideration to the above changes, are consistent between fiscal periods.

3.0 Risks and Uncertainties

The CGC receives funding through both voted appropriations and fees related to the handling of grain. Service fee revenue is largely based on grain volumes handled — a volume which fluctuates from year to year. The CGC revolving fund is utilized as effectively as possible. The annual budget is also re-profiled throughout the year to deal with shifting needs and priorities, including planning for and accommodating a potential 20 percent swing in projected grain volumes.

In fall 2012, the CGC initiated a process to modernize user fees to align with amendments to the CGA introduced in Parliament as part of Bill C-45. Bill C-45 received Royal Assent on December 14, 2012. Amended legislation and updated user fees came into force concurrently on August 1, 2013. These changes eliminated the need for annual ad hoc funding going forward and created a more stable environment for integrated people and business management. A stable funding environment has reduced overall organizational risk and allows the CGC to continue to successfully deliver its program activities and achieve its strategic outcome.

While updated user fees took effect on August 1, 2013, there continues to be external pressure and corresponding risks related to the CGC's funding structure. As noted above, CGC revenues are dependent on annual grain volumes that can fluctuate considerably from year to year. In addition, grain volumes are not fully known prior to commencement of the fiscal year. This can result in significant variances between CGC projected revenues and actual revenues. Because actual grain volumes vary from year to year, in years with higher-than-average grain volumes, revenues may exceed costs and the CGC could accumulate surpluses (shown as unused authority carried forward in Public Accounts). In years with lower-than-average grain volumes, revenues could be less than costs and the CGC is required to draw on its surpluses.

The fees for the 2013 to 2018 user fees cycle are based on an annual average grain volume of 23.253 million metric tonnes. A simple 15-year average linear regression model of grain volumes inspected and weighed was used to establish the average of 23.253 million metric tonnes. Since the implementation of the new user fee schedule on August 1, 2013, the CGC has inspected and weighed significantly higher than projected export grain volumes while operating costs have remained relatively constant. While the updated funding model and user fees have eliminated the CGC's dependence on annual ad hoc federal appropriations, the CGC has accumulated a surplus of $95.887 million as of March 31, 2016 due to higher than expected grain volumes in recent years.

To mitigate the risks associated with the funding model, the CGC:

- completed a review of its fee structure to ensure that user fees accurately reflect the costs of providing services and updated grain volume projections, as well as the uncertainty associated with these projections;
- is working closely with AAFC and other government departments to prepare for user fees consultations planned during 2017 and to ensure the user fees amendment process, as per the User Fees Act, is completed in a timely manner;

- is assessing possible options and uses for the accumulated surplus by engaging central agencies and stakeholders; and

- will continue to engage collaboratively with all stakeholders to understand their needs and requirements and to expand awareness and appreciation of what the CGC does and how it adds value.

4.0 Significant Changes to Operations, Personnel, and Programs

From fiscal year 2012-13 to fiscal year 2015-16, the CGC transformed itself into a streamlined and financially sustainable organization. This is due to certain activities being eliminated and other activities being adjusted and/or implemented to allow the CGC to continue to achieve its mandate and manage risk. Changes resulted in a reduction in operational spending of $21.835 million between 2012-13 and 2015-16.

Planned operational spending began to stabilize at approximately $60.537 million in 2015-16. This includes $5.475 million from annual appropriation and projected spending of approximately $55.062 million of revenue earned through user fees as adjusted for inflation. Planned human resource requirements decreased from approximately 731 full time equivalents (FTEs) (as at March 31, 2013) to 404 FTEs by the end of 2015-16.

During the fourth quarter of 2016-17, Patricia Miller was appointed as Chief Commissioner for a six-year term, Anthony Douglas Chorney as Assistant Chief Commissioner for a five-year term and Lonny McKague as Commissioner for a four-year term, all appointments are effective February 13, 2017.

Significant changes to operations and programs are not anticipated in 2016-17.

Approval by Senior Official

Approved by:

Patricia Miller Chief Commissioner Winnipeg, Manitoba February 21, 2017	Cheryl Blahey Chief Financial Officer Winnipeg, Manitoba February 21, 2017

Statements of Budgetary Authorities (Unaudited)

For the period ended December 31, 2016

(in thousands of dollars)	*Fiscal Year 2016-17* Total available for use for the year ending March 31, 2017*	Used during the quarter ended December 31, 2016	Year-to date used at quarter end	*Fiscal Year 2015-16* Total available for use for the year ending March 31, 2016*	Used during the quarter ended December 31, 2015	Year-to date used at quarter end
Vote 1						
Appropriation including Ad hoc	**$ 4,782**	**849**	**2,650**	**$ 5,129**	**868**	**2,613**
Statutory Authorities:						
Revolving Fund Gross Expenditures	56,368	13,800	38,603	55,062	13,222	37,340
Revolving Fund Gross Revenues	(56,368)	(21,166)	(57,240)	(55,062)	(19,609)	(54,790)
Revolving Fund Net Expenditures	**$ 0**	**(7,366)**	**(18,637)**	**$ 0**	**(6,387)**	**(17,450)**
Employee Benefit Plan	606	145	458	591	145	439
Total Statutory Authorities	**606**	**(7,221)**	**(18,179)**	**591**	**(6,242)**	**(17,011)**
Total Budgetary Authorities	**$ 5,388**	**(6,372)**	**(15,529)**	**$ 5,720**	**(5,374)**	**(14,398)**

*** Includes only Authorities available for use and granted by Parliament at quarter-end.**
Due to rounding, totals may not add to totals shown.

Departmental Budgetary Expenditures by Standard Object (Unaudited)

For the period ended December 31, 2016

(in thousands of dollars)	*Fiscal Year 2016-17* Planned Expenditures for the year ending March 31, 2017*	Expended during the quarter ended December 31, 2016	Year-to date used at quarter end	*Fiscal Year 2015-16* Planned Expenditures for the year ending March 31, 2016*	Expended during the quarter ended December 31, 2015	Year-to date used at quarter end
Expenditures:						
Personnel	$42,622	10,337	30,065	$41,919	10,369	29,489
Transportation and communication	2,892	1,197	2,484	3,510	1,119	2,299
Information	318	116	230	199	62	192
Professional and special services	3,059	508	1,706	3,212	445	1,693
Rentals	6,684	1,195	4,121	5,156	1,361	4,087
Repairs and Maintenance	993	339	769	930	39	444
Utilities, materials and supplies	852	248	652	1,605	163	510
Acquisition of machinery and equipment	4,336	680	1,362	4,251	677	1,670
Other Subsidies and payments	0	174	322	0	0	8
Total Gross Budgetary Expenditures	**61,756**	**14,794**	**41,711**	**60,782**	**14,235**	**40,392**
Revolving Fund Revenue (To be credited to Vote)	**(56,368)**	**(21,166)**	**(57,240)**	**(55,062)**	**(19,609)**	**(54,790)**
Total Net Budgetary Expenditures	**$ 5,388**	**(6,372)**	**(15,529)**	**$ 5,720**	**(5,374)**	**(14,398)**

*** Includes only Authorities available for use and granted by Parliament at quarter-end.**
Due to rounding, totals may not add to totals shown.